

## Alcoholic Beverage Tax

### Description

The Alcoholic Beverage Tax is applied to the first sale or delivery of alcohol to retailers in New Jersey and is based upon the number of gallons sold or otherwise disposed of in the State. The tax is collected from licensed manufacturers, wholesalers, and State beverage distributors.

Sales to organizations of armed forces personnel are exempt; so are sales for medicinal, dental, industrial and other non-beverage uses.

### Rate

<i>Type of Beverage</i>	<i>Rate per Gallon</i>
Beer .....	\$0.12
Liquor .....	\$4.40
Still Wine, Vermouth, Sparkling Wine.....	\$0.70

P.L. 1997, C. 153 reduced the tax rate on hard apple ciders containing between 3.2% and 7% of alcohol by volume from \$0.70/gallon to \$0.12/gallon, effective November 1, 1997.

### Disposition of Revenues

Revenues are deposited in the State Treasury for general State use, except that beginning on July 1, 1992, \$11 million of the tax revenue is deposited annually into the Alcohol Education, Rehabilitation and Enforcement Fund.

## Atlantic City Casino Parking Fee

### Description

Casino parking facilities in Atlantic City are required under P.L. 1993, C. 159, to impose a minimum charge for a space used for parking, garaging or storing a motor vehicle in a parking facility or property owned or leased by a casino hotel or by any person on behalf of a casino hotel licensed under the "Casino Control Act."

### Rate

The minimum charge is \$2.00 a day for use of a parking space. The fee is due only once per day per vehicle.

### Disposition of Revenues

The fees collected will be placed in a special fund held by the State Treasurer. The funds will then be available to the Casino Reinvestment Development Authority to finance public improvements in the Atlantic City area.

## Atlantic City Luxury Sales Tax

### Description

The Atlantic City Luxury Sales Tax applies to the receipts from specified retail sales within Atlantic City, including sales of alcoholic beverages for on-premises consumption; cover, minimum, or entertainment charges; room rental in hotels, inns, rooming or boarding houses; hiring of rolling chairs, beach chairs and cabanas; and tickets of admission within Atlantic City.

Casual sales, sales to New Jersey or its political subdivisions, sales exempt under Federal law, and sales by a church or nonprofit charitable organization are exempt.

### Rate

The rate of tax is 3% on sales of alcoholic beverages and 9% on other taxable sales. The State sales tax rate is reduced to the extent that the city rate exceeds 6%, and the maximum combined Atlantic City rate and New Jersey rate may not exceed 12%.

### Disposition of Revenues

Revenues are forwarded to the Sports and Exposition Authority for funding and operating Atlantic City Convention facilities.

## Atlantic City Tourism Promotion Fee

### Description

Municipalities with convention center facilities supported by a local retail sales tax are authorized under P.L. 1991, C. 376, to collect fees for the promotion of tourism, conventions, resorts and casino gaming. The fee is imposed upon and is payable by all hotels, motels, rooming houses, etc., in such municipalities. Atlantic City is the only New Jersey municipality that currently qualifies under the law. For filing purposes, the tourism promotional fee is reported and paid by the taxpayer on the combined Atlantic City Luxury/State Sales Tax Return.

### Rate

The rate is \$2 per day for each occupied room in the case of hotels that provide casino gambling and \$1 per day for each occupied room in other hotels. The fee also applies to "no charge" occupancies.

### **Disposition of Revenues**

Fees are collected by the Director, certified to the State Treasurer, and distributed to the Atlantic City Convention Center Operating Authority.

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## **Cape May County Tourism Sales Tax**

### **Description**

The Tourism Improvement and Development District Act, P.L. 1992, C. 165, authorized municipalities in Cape May County to require certain businesses to collect an additional 2% retail sales tax on tourism-related retail sales and/or pay a tourism development fee. At present, businesses in Wildwood, North Wildwood and Wildwood Crest are affected.

Tourism-related sales include the following items (if also taxable under the Sales and Use Tax Act): room rental in hotels, motels or boarding houses; food and drink sold by restaurants, taverns and other similar establishments, or by caterers (but not including vending machine sales); and admission charges to amusements (amusement rides, movie theaters, sporting, drama or musical events) and cover charges in nightclubs and cabarets.

### **Rate**

The tax rate is 2% on tourism-related retail sales. The tax is in addition to the 6% State sales tax. Thus, sales subject to the Cape May Tourism and the State sales tax are taxable at 8%.

### **Disposition of Revenues**

Revenues are collected by the State Treasurer and are to be placed in a special reserve fund to pay principal and interest on bonds and notes issued by the tourism authority for tourism promotion projects and activities.

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## **Cigarette Tax**

### **Description**

The Cigarette Tax is collected primarily from licensed distributors who receive cigarettes directly from out-of-State manufacturers. Unless otherwise provided by law, every package of cigarettes must be stamped before being transferred from the original acquirer in New Jersey. This tax is not imposed on other tobacco products.

Sales to the United States Government or the Veterans Administration, and sales in interstate commerce, are exempt.

### **Rate**

The tax rate is \$0.04 per cigarette, \$0.80 for a pack of 20 cigarettes, \$1.00 for a pack of 25 cigarettes, effective January 1, 1998.

A distributor is allowed a .005625% discount on the purchase of 1,000 or more stamps or meter impressions.

### **Disposition of Revenues**

Revenues are deposited in the State Treasury for general State use. Pursuant to P.L. 1998, C. 264, initial collections of \$155 million are deposited in the Health Care Subsidy Fund.

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## **Corporation Business Tax**

### **Description**

The Corporation Business Tax Act imposes a franchise tax on a domestic corporation for the privilege of existing as a corporation under New Jersey law, and on a foreign corporation for the privilege of having or exercising its corporate charter in this State or doing business, employing or owning capital or property, or maintaining an office in New Jersey.

The tax applies to all domestic corporations and all foreign corporations having a taxable status unless specifically exempt. The tax also applies to joint-stock companies or associations, business trusts, limited partnership associations, financial business corporations, and New Jersey banking corporations, including national banks.

The tax is measured by that portion of the net income allocable to New Jersey. The tax applies to net income for the firm's accounting period (calendar year or fiscal year), or any part thereof during which the corporation has a taxable status within New Jersey.

Exempt from the tax are certain agricultural cooperative associations; building and loan associations and savings and loan associations; Federal corporations which are exempt from state taxation; corporations created under the Limited-Dividend Housing Corporation law; nonprofit cemetery corporations; nonprofit corporations without capital stock; non-stock Mutual Housing Corporations; railroad and canal corporations; sewerage and water corporations; insurance companies subject to premiums tax; international banking facilities; and certain municipal electric corporations.

## Rate

The tax rate is 9% upon entire net income, or the portion of net income allocated to New Jersey. For tax years beginning in calendar year 1994 and thereafter, the minimum tax is:

	<i>Domestic Corporation</i>	<i>Foreign Corporation</i>
1994	\$50	\$100
1995	\$100	\$200
1996	\$150	\$200
1997	\$200	\$200

Beginning in 2002, the minimum tax will be adjusted every five years to take into account any increases in the annual average total producer price index.

The tax rate for corporations having \$100,000 or less in net income is 7.5% for 12 month privilege periods beginning on or after July 1, 1996. For a New Jersey S corporation whose taxable year began on or after January 1, 1996 and ended on or before June 30, 1998, the tax rate is 2.63%. For a New Jersey S corporation whose taxable year ends on or after July 1, 1998, the rate is 2%. For a New Jersey S corporation having \$100,000 or less in net income for a 12 month privilege period, the rates are 1.13% and 0.5%, respectively.

## Disposition of Revenues

Revenues collected from general business corporations are deposited in the State Treasury for general State use. Revenues collected from banking and financial corporations are distributed 25% to counties, 25% to municipalities, and 50% to the State.

Article VIII, Section II of the State Constitution was amended to dedicate 4% of Corporation Business Tax revenue to fund hazardous discharge cleanup, underground storage tank improvements, and surface water quality projects.

## History

Corporation Business Taxes date back to 1884 when a franchise tax was imposed upon all domestic corporations. Between 1884 and 1946, the franchise tax was based upon the total amount of capital stock issued by the taxpayer and outstanding as of January 1 of each year (C. 159, P.L. 1884).

There was no franchise tax on foreign corporations prior to 1936, when provision was made for an annual tax (C. 264, P.L. 1936). This tax was replaced in 1937 (C. 25, P.L. 1937) with a new franchise tax providing for allocation of capital stock of foreign corporations.

Effective January 1, 1946 (C. 162, P.L. 1945), the tax became a net worth tax applicable to both domestic and foreign corporations and measured by net worth allocated to New Jersey. Allocation was measured by the greater of an assets factor or a three-part business factor (property, sales and payroll).

Chapter 88, Laws of 1954 increased the tax on allocable net worth from 8/10 mills per \$1 to 2 mills per \$1.

Chapter 63, Laws of 1958 amended the Corporation Business Tax Act by adding a tax at 1¾% based upon allocated net income to the tax based upon allocated net worth. The 1958 amendment also changed the tax year from a calendar year for all corporations to a privilege period coinciding with the accounting year for each taxpayer.

In 1975, the Corporation Business Tax was imposed on banking corporations and incorporated financial businesses.

In 1982, there was enacted into law a measure phasing out the Corporation Business Tax on net worth. The tax was phased out at 25% per year over a four-year period with taxpayers whose accounting or privilege periods began on or after April 1, 1983 (C. 55, P.L. 1982). The net worth tax has been eliminated for periods beginning after June 30, 1986.

Net Income Tax rates have changed as follows:

<i>Effective Date</i>	<i>Rate</i>
January 1, 1959 (C. 63, P.L. 1958)	1¾%
January 1, 1967 (C. 134, P.L. 1966)	3¼
January 1, 1968 (C. 112, P.L. 1968)	4¼
January 1, 1972 (C. 25, P.L. 1972)	5½
January 1, 1975 (C. 162, P.L. 1975)	7½
January 1, 1980 (C. 280, P.L. 1980)	9

Chapter 143, Laws of 1985 (approved April 22, 1985) allows a carryover of net operating loss as a deduction from taxpayer's entire net income for seven years following the year of the loss for taxable years ending after June 30, 1984.

A surtax of 0.417% was invoked for privilege periods ending between July 1, 1990 and June 30, 1991; and 0.375% for privilege periods ending between July 1, 1989 and June 30, 1990 and July 1, 1991 through June 30, 1993. The 0.375% surtax on corporate net income was repealed effective January 1, 1994. The surtax had been scheduled to end July 1, 1994 (C. 3, P.L. 1994).

A jobs investment tax credit, enacted in 1993 (C. 170), allows corporations to take a credit against Corporation Business Tax and property taxes for qualified investments in new or expanded business facilities resulting in new

jobs in the State. The credit against Corporation Business Tax is for up to 50% of the portion of the tax that results from investment in new or expanded facilities. Chapter 171 allows for a credit against Corporation Business Tax for investment in qualified equipment. The credit is 2% of the cost of qualified machinery purchased (the investment credit base). Taxpayers taking the 2% equipment credit may also take an employment credit of \$1,000 per new employee (up to a maximum of 3% of the investment credit base). Chapter 175 allows for a credit for increased research activities.

Two changes in 1993 brought New Jersey corporation tax law into closer alignment with Federal corporation tax law. Chapter 172 allows corporations to use the Federal modified accelerated cost recovery system for depreciation of property under the New Jersey Corporation Business Tax for property placed in service for accounting years beginning after July 7, 1993. Chapter 173 allows, for the first time, an S election to be made under New Jersey law. As noted above, a New Jersey S corporation pays a reduced tax rate on that portion of entire net income not subject to Federal corporate income tax. The shareholder is taxed on net pro rata share of S corporation income under the gross income tax.

The allocation formula for multistate corporations was changed in 1995. Under prior law, multistate corporation income was allocated to New Jersey based on equally weighted New Jersey property, payroll and sales compared to total property, payroll and sales. The new formula counts sales twice, so that sales account for half the allocation formula (C. 245, P.L. 1995). The legislature continued to provide additional tax benefits for corporation business taxpayers. These include a tax benefit certificate transfer program to assist certain emerging companies (C. 334, P.L. 1997), the Small New Jersey Based High Technology Business Investment Tax Credit Act (C. 349, P.L. 1997), the carryforward of net operating losses under the Corporation Business Tax for certain taxpayers (C. 350, P.L. 1997), the extension of the carryforward of the research and development tax credit (C. 351, P.L. 1997), and the Neighborhood and Business Child Care Tax Incentive Program (C. 102, P.L. 1999). Electric and telephone companies are now subject to the Corporation Business Tax effective January 1, 1999.

### **Installment Payments of Estimated Tax**

Taxpayers are required to make installment payments of Estimated Tax. The requirement for making these payments is based on the amount of the Total Tax Liability shown on the most recent return.

- (a) If the Total Tax Liability is \$500 or more, the taxpayer must make installment payments. These payments are due on or before the 15th day of the 4th, 6th, 9th and 12th month of the tax year.
- (b) If the Total Tax Liability is less than \$500, installment payments may be made as shown in (a) above or, in lieu of making installment payments, the taxpayer may make a payment of 50% of the Total Tax Liability.

### **Banking and Financial Corporations**

Banking and financial corporations are subject to the Corporation Business Tax Act at the rate of 9% on net income.

Chapter 170, P.L. 1975 provides that during each of privilege years 1976, 1977 and 1978, the amount paid by each banking corporation as taxes shall be the greater of (1) the amount which such banking corporation paid in calendar year 1975 as Bank Stock Tax, or (2) a sum equal to total of taxes paid by such banking corporation as Corporation Business Tax and Business Personal Property Tax.

Formerly, banks were subject to a tax of 1.5% on net worth under the Bank Stock Tax Act. Bank Stock Tax was formerly administered by the Division of Taxation and the 21 separate County Boards of Taxation. The corporate tax upon banks is now solely administered by the Division.

Financial business corporations were formerly subject to the Financial Business Tax. These included such corporations as small loan companies and mortgage finance companies which are now subject to the Corporation Business Tax.

Chapter 171, P.L. 1975 provides that during each of the years 1976, 1977 and 1978, each financial business corporation shall pay as taxes, the greater of (1) a sum equal to the amount such financial business corporation paid under the Financial Business Tax Act in the calendar year 1975, or (2) a sum equal to the total of the taxes payable by such financial business corporation pursuant to the Corporation Business Tax Act. Chapter 40, P.L. 1978 extended the save harmless provision through 1979. It expired in 1980. As a result of changes in the Federal and State banking laws, interstate banking is now permitted (P.L. 1996, C. 17). An administrative rule adopted by the Division of Taxation (N.J.A.C. 18:7-1.14, effective June 16, 1997) sets forth certain conditions under which foreign banks and certain domestic banks will be taxed in New Jersey.

## Investment Companies

Investment companies and regulated investment companies are subject to tax under special allocation formulas.

A taxpayer qualifying and electing to be taxed as an investment company is subject to an allocation percentage of 25% of the net income base. These investment companies are subject to a minimum tax of \$250.

*Regulated Investment Company* means any corporation which, for a period covered by its reports, is registered and regulated under the Investment Company Act of 1940 (54 Stat. 789), as amended.

The Corporation Business Tax on regulated investment companies was eliminated (P.L. 1983, C. 75), approved on February 24, 1983. Regulated investment companies in New Jersey were formerly taxed on both entire net worth and entire net income. These taxes are now eliminated and a flat tax of \$250 per year is imposed.

Real estate investment trusts qualifying and electing to be taxed as such under Federal law are taxed at 4% of entire net income.

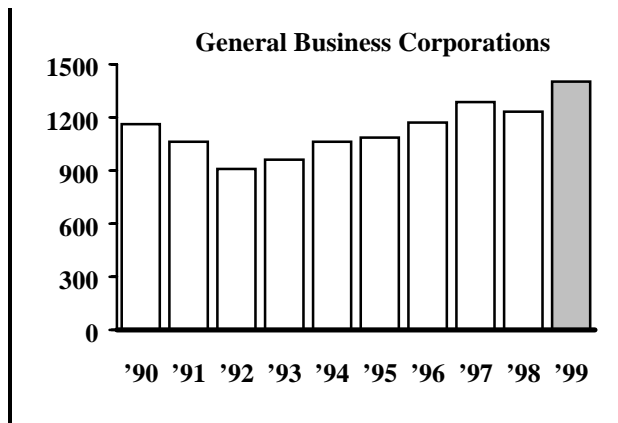
## Deferred Pre-Dissolution Payment

Chapter 367, P.L. 1973, approved in 1974, eliminates the requirement for a certificate obtained in case of merger or consolidation involving a domestic or foreign corporation qualified to transact business in New Jersey. It also provides alternatives to actual payment of taxes, or payment on account of such taxes by providing in lieu thereof, for a written undertaking to be given by a domestic corporation, or a foreign corporation authorized to transact business in New Jersey, to pay all taxes when payable on behalf of a corporation which otherwise would have to pay all taxes prior to taking certain corporate actions.

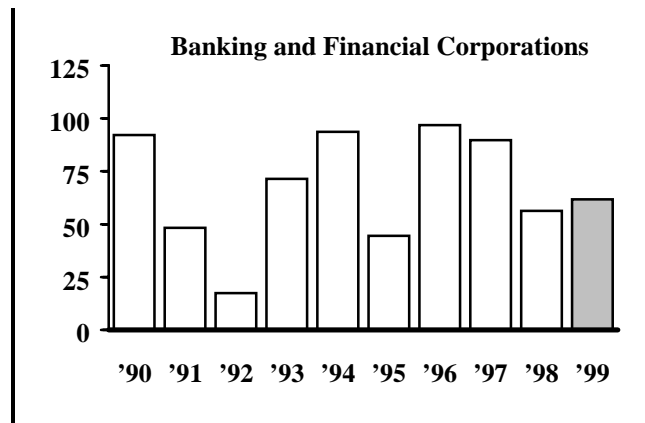
## Allocation Factor

If the taxpayer had a regular place of business outside New Jersey, its tax liability is measured by net income allocated to New Jersey, according to a four-fraction formula based on an average of property, payroll and sales, which is counted twice. The factor is computed by adding the percentage of the property and payroll fractions, and a fraction representing two times the sales receipts, and dividing the total by four.

## Corporation Business Tax Collections (In Millions)



Fiscal Year	Collections
1990	\$1,162,835,737
1991	1,063,089,390
1992	909,618,920
1993	960,753,965
1994	1,063,141,745
1995	1,085,502,032
1996	1,171,509,159
1997	1,286,447,475
1998	1,231,629,172
1999	1,402,906,622



Fiscal Year	Collections
1990	\$92,089,805
1991	48,200,249
1992	17,411,936
1993	71,375,391
1994	93,738,713
1995	44,499,198
1996	96,860,000
1997	89,716,792
1998	56,234,674
1999	61,716,112

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## Corporation Income Tax

### Description

Corporation Income Tax applies to corporations deriving income from sources within the State which are not subject to the tax imposed under the Corporation Business Tax Act. However, the tax has become practically obsolete due to Corporation Business Tax regulations as well as New Jersey's adoption of the Multistate Tax Commission's guidelines and the U.S. Supreme Court decision, *Quill Corp. v. North Dakota*, 112 S.Ct. 1004 (1992), as well as the New Jersey Tax Court decision in *Pomco Graphics v. Division of Taxation*, 13 N.J. Tax 578 (1993).

### Rate

The tax rate is 7¼% of entire net income or such portion as is allocable to New Jersey.

### Disposition of Revenues

Revenues are deposited in the State Treasury for general State use.

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## Gross Income Tax

### Description

This graduated tax is levied on gross income earned or received after June 30, 1976, by New Jersey resident and nonresident individuals, estates and trusts.

### Rate

Rates for tax years beginning on or after January 1, 1991 but before January 1, 1994 ranged from 2% – 7%. For tax years beginning on or after January 1, 1994 but before January 1, 1995, rates were reduced to 1.9% – 6.65%. For tax years beginning on or after January 1, 1995 but before January 1, 1996, rates were reduced to 1.7% – 6.58%, and for tax years beginning on or after January 1, 1996 rates were reduced to 1.4% – 6.37%. See charts on the next page.

### Exemptions

- Taxpayer, \$1,000.
- Taxpayer's spouse who does not file separately, \$1,000.
- Taxpayer 65 years old or more, additional \$1,000; same for spouse age 65 or older who does not file separately.
- Blind or totally disabled taxpayer, additional \$1,000; same for blind or totally disabled spouse who does not file separately.

- Taxpayer's dependent, \$1,500.
- Taxpayer's dependent under age 22 and attending college full time, additional \$1,000.

### Deductions

- Payments of alimony or for separate maintenance are deductible by the payer if reported as income by the payee.
- Unreimbursed medical expenses in excess of 2% of gross income and qualified medical savings account contributions.
- Property tax deduction (or credit).

### Credits

- Payments of income or wage tax imposed by another state (or political subdivision) or by the District of Columbia, with respect to income subject to tax under this Act. This shall not exceed the proportion of tax otherwise due that the amount of the taxpayer's income bears to the taxpayer's entire New Jersey income.
- Amounts withheld by an employer and payments of estimated tax.
- Amounts paid by an S corporation on behalf of a shareholder.
- Excess unemployment and disability insurance contributions withheld.
- Property tax credit (or deduction).

### Withholding Requirement

All employers and others who withhold New Jersey income tax are required to file quarterly returns of tax withheld and to remit tax on a monthly, quarterly or weekly basis.

Those with prior year withholdings of \$20,000 or more are required to remit the income tax withheld by means of Electronic Funds Transfer (EFT) on or before the Wednesday of the week following the week containing the payday(s) on which taxes were withheld.

### Disposition of Revenues

Revenues are deposited in the "Property Tax Relief Fund" to be used for the purpose of reducing or offsetting property taxes.

***Filing Status: Married, Filing Joint Return or Head of Household or Qualifying Widow(er)*****Taxable Income\*****Tax Rates**

	1991-1993	1994	1995	1996 and later
<i>over but not over</i>				
\$ 0 – \$20,000	2%	1.9%	1.7%	1.4%
20,000 – 50,000	\$400 plus 2.5% of excess over \$20,000	\$380 plus 2.375% of excess over \$20,000	\$340 plus 2.125% of excess over \$20,000	\$280 plus 1.750% of excess over \$20,000
50,000 – 70,000	\$1,150 plus 3.5% of excess over \$50,000	\$1,092.50 plus 3.325% of excess over \$50,000	\$977.50 plus 2.975% of excess over \$50,000	\$805 plus 2.450% of excess over \$50,000
70,000 – 80,000	\$1,850 plus 5% of excess over \$70,000	\$1,757.50 plus 4.750% of excess over \$70,000	\$1,572.50 plus 4.250% of excess over \$70,000	\$1,295.50 plus 3.500% of excess over \$70,000
80,000 – 150,000	\$2,350 plus 6.5% of excess over \$80,000	\$2,232.50 plus 6.175% of excess over \$80,000	\$1,997.50 plus 6.013% of excess over \$80,000	\$1,645 plus 5.525% of excess over \$80,000
150,000	\$6,900 plus 7% of excess over \$150,000	\$6,555 plus 6.650% of excess over \$150,000	\$6,206.60 plus 6.580% of excess over \$150,000	\$5,512.50 plus 6.370% of excess over \$150,000

***Filing Status: Single or Married, Filing Separate Return and Estates or Trusts*****Taxable Income\*****Tax Rates**

	1991-1993	1994	1995	1996 and later
<i>over but not over</i>				
\$ 0 – \$20,000	2%	1.9%	1.7%	1.4%
20,000 – 35,000	\$400 plus 2.5% of excess over \$20,000	\$380 plus 2.375% of excess over \$20,000	\$340 plus 2.125% of excess over \$20,000	\$280 plus 1.750% of excess over \$20,000
35,000 – 40,000	\$775 plus 5% of excess over \$35,000	\$736.25 plus 4.750% of excess over \$35,000	\$658.75 plus 4.250% of excess over \$35,000	\$542.50 plus 3.500% of excess over \$35,000
40,000 – 75,000	\$1,025 plus 6.5% of excess over \$40,000	\$973.75 plus 6.175% of excess over \$40,000	\$871.25 plus 6.013% of excess over \$40,000	\$717.50 plus 5.525% of excess over \$40,000
75,000	\$3,300 plus 7% of excess over \$75,000	\$3,135 plus 6.650% of excess over \$75,000	\$2,975.80 plus 6.580% of excess over \$75,000	\$2,651.25 plus 6.370% of excess over \$75,000

\*For tax years beginning before January 1, 1994, filers with incomes of \$3,000 or less for the entire year (\$1,500 or less for married persons filing separately) pay no tax. For the 1994 to 1998 tax years, filers with incomes of \$7,500 or less for the entire year (\$3,750 or less for married persons filing separately) pay no tax. For the 1999 tax year, filers with incomes of \$10,000 or less for the entire year (\$5,000 or less for married persons filing separately) pay no tax.

**History**

The Gross Income Tax was enacted July 8, 1976, retroactive to July 1, 1976 (C. 47, P.L. 1976).

Pension income for those eligible for Social Security by reason of age (62 years or over) or disability is exempt as follows: first \$10,000 for a married couple filing jointly; \$5,000 for a married person filing separately; and \$7,500 for a single taxpayer (C. 40, P.L. 1977). Chapter 273, P.L. 1977 extended the exclusion allowed for pensions to other

types of retirement income. The exclusion applies to taxpayers who are 62 years of age or older and whose earned income is not more than \$3,000. An additional exclusion was provided for taxpayers age 62 or older who are not covered by either Social Security or Railroad Retirement benefits.

C. 229, P.L. 1982 increased the rate from 2½% to 3½% on amounts in excess of \$50,000 effective January 1, 1983.

Property taxes paid on the taxpayer's homestead became deductible from residents' taxable income effective for taxes paid after 1984 (C. 304, P.L. 1985).

C. 219, P.L. 1989 exempted pension and annuity income of nonresidents from the Gross Income Tax.

The Gross Income Tax Act was amended in 1990 to include new graduated rates (from 2% to 7%) and two new filing statuses (head of household and surviving spouse). The legislation also increased the amount of the exemption for dependents from \$1,000 to \$1,500. In addition to these amendments, the legislation instituted a new homestead rebate program and repealed the residential property tax deduction and credit and tenant credit. The legislation extended to heads of household and surviving spouses the exclusion of up to \$7,500 of pension and annuity income. These changes took effect in 1990. The new tax rates became effective January 1, 1991 (C. 61, P.L. 1990).

C. 108, P.L. 1993 permitted an exemption from an employee's gross income for employer-provided commuter transportation benefits.

State benefits received for a family member with a developmental disability were removed from the definition of income for State tax purposes in 1993 (C. 98, P.L. 1993).

C. 173, P.L. 1993 included Subchapter S corporation income in the New Jersey gross income tax base, effective with taxable years beginning after July 7, 1993.

C. 178, P.L. 1993 changed the method of computing the income of nonresidents for purposes of New Jersey gross income tax. For tax years beginning in 1993 and thereafter, a nonresident with income from New Jersey must compute gross income tax liability as though a resident, and then prorate the liability by the proportion of New Jersey source income to total income. Formerly, the calculation was based only on New Jersey source income.

A 5% reduction in the gross income tax rates (to 1.9% – 6.650%) was enacted for tax year 1994 (C. 2, P.L. 1994).

The gross income filing threshold was increased to \$7,500 from \$3,000 for individuals, heads of households, surviving spouses, married persons filing jointly and estates and trusts. (The threshold is \$3,750 for married persons filing separately.) (C. 8, P.L. 1994.)

The State reduced the gross income tax rates for taxable years 1995 and thereafter. These rate reductions, combined with the 5% rate reductions for all brackets enacted as P.L. 1994, C. 2, resulted in cumulative decreases from the 1993 taxable year levels of 15%, 7.5% and 6% for certain income brackets (C. 69, P.L. 1994).

Gross income tax rates were reduced again for taxable years 1996 and thereafter. In combination with the prior two rate reductions, the cumulative decrease from the 1993 taxable year was 30% for the lowest, 15% for the middle, and 9% for the highest income brackets. Tax rates now range from 1.4% to 6.37% (C. 165, P.L. 1995).

A property tax deduction/credit is provided on State income tax returns for resident homeowners and tenants who pay property taxes, either directly or through rent, on their principal residence in New Jersey. Benefits were phased in over a three-year period, beginning with 1996 returns (C. 60, P.L. 1996). For tax years 1998 and thereafter, taxpayers may take the larger of either a \$50 tax credit or a deduction of up to \$10,000 for property taxes paid.

C. 237, P.L. 1997, exempts New Jersey Better Educational Savings Trust account earnings and qualified distributions.

C. 414, P.L. 1997, exempts contributions to medical savings accounts that are excludable under section 220 of the Federal Internal Revenue Code, effective for tax years beginning on or after January 1, 1998.

C. 3, P.L. 1998 amended the Gross Income Tax Act to adopt the new Federal exclusions of up to \$500,000 in gain from the sale of a principal residence.

C. 57, P.L. 1998, provides a Roth IRA exclusion from taxable income that follows the Federal treatment of Roth IRAs and certain rollovers to IRAs.

C. 409, P.L. 1998, exempts military pensions or military survivors' benefits paid to those 62 years of age or older, or disabled under the Federal Social Security Act, effective beginning with tax year 1998.

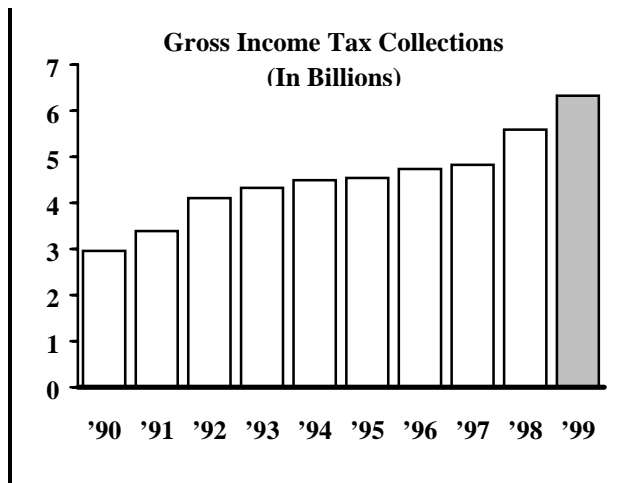
C. 106, P.L. 1998, raised the threshold for being required to pay estimated tax to \$400 in estimated tax, effective for the 1999 tax year.

Effective for the 1999 through 2001 tax years certain deductions may be available to qualified childcare consortium members (C. 102, P.L. 1999).

C. 116, P.L. 1999, exempts qualified distributions from qualified State tuition program accounts.

C. 260, P.L. 1999, increased the gross income tax filing threshold to \$10,000 (\$5,000 for married persons filing separately) for the 1999 tax year. For married persons filing jointly, heads of households and surviving spouses, the threshold will increase to \$15,000 for tax year 2000 and to \$20,000 for tax year 2001 and later (\$7,500/\$10,000 for married persons filing separately).





Fiscal Year	Collections
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1990	\$2,957,634,330
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1991	3,391,026,222 <sup>1</sup>
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1992	4,101,895,000
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1993	4,325,304,359
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1994	4,493,659,929 <sup>2</sup>
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1995	4,540,081,765 <sup>3</sup>
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1996	4,733,786,100 <sup>4</sup>
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1997	4,825,410,635
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1998	5,590,578,933
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<b>1999</b>	<b>6,323,893,129</b>
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<sup>1</sup> Rates increased to 2% – 7% effective January 1, 1991.

<sup>2</sup> Rates reduced by 5% (to 1.9% – 6.650%) effective January 1, 1994.

<sup>3</sup> Rates reduced to 1.7% – 6.58% effective January 1, 1995.

<sup>4</sup> Rates reduced to 1.4% – 6.37% effective January 1, 1996.

## Homestead Rebate Program

Chapter 61, P.L. 1990 created a new Homestead Property Tax Rebate program to provide rebates for both homeowners and tenants. The new program replaced certain other direct property tax relief programs: (1) the original Homestead Rebate program (C. 72, P.L. 1976) which provided rebates to homeowners; (2) the residential property tax deduction and credit provided to both homeowners and tenants on their income tax returns under C. 304, P.L. 1985; and (3) the tenant credit program (C. 47, P.L. 1976, as amended).

The application for the new Homestead Property Tax Rebate was combined with the resident income tax return beginning with the tax return for 1990, and benefits were

linked to income level and amount of property tax paid. Under this program rebates ranged from \$100 to \$500 for homeowners, and \$35 to \$500 for tenants, depending on the applicant's filing status, gross income, and the amount of property tax paid, either directly or through rent. Those with incomes over \$100,000 were not eligible for a rebate.

The State Budgets adopted by the Legislature since 1992, limited the amount of the Homestead Rebate paid to some taxpayers. Under the budget restrictions, only taxpayers who were 65 years old, blind or disabled were eligible to receive rebates of \$100 to \$500 (homeowners) or \$35 to \$500 (tenants), provided that their gross income did not exceed \$100,000. For other taxpayers, rebates were limited to those with a gross income of \$40,000 or less, with a standard rebate amount of \$90 for homeowners and \$30 for tenants. Those with gross incomes over \$40,000 were no longer eligible for a rebate.

In November 1992 the New Jersey Tax Court ruled that anyone who resides in a dwelling which does not pay local property tax is not entitled to a Homestead Property Tax Rebate. This includes tenants living in subsidized housing or other dwellings owned by the State, County, Municipal or Federal government; students living in on-campus apartments at State colleges and universities; and tenants living in dwellings owned by religious, charitable or other nonprofit organizations, including on-campus apartments at private nonprofit colleges and universities, if the property is exempt from local property taxes. Permanently and totally disabled veterans and their surviving spouses who do not pay property taxes are also ineligible for rebates.

On April 15, 1999, the NJ SAVER and Homestead Rebate Act (C. 63, P.L. 1999) created a new, direct property tax relief program which will be phased in over five years beginning in 1999. Under the provisions of this new act, homeowners who qualify for both the homestead rebate and the NJ SAVER rebate will receive either the homestead rebate or the new NJ SAVER rebate, depending which program provides the greater benefit.

This same legislation increased the homestead rebate income threshold for tenants to \$100,000 and set the income threshold at \$40,000 for homeowners who are not 65 or older or blind or disabled. For 1998, tenants who were under 65, not blind or disabled and had income between \$40,000 and \$100,000 were eligible to receive a \$30 homestead rebate provided they filed a homestead rebate application by June 15, 1999. This amount will increase to \$100 over a five-year period.

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## Insurance Premiums Tax

### Description

The Insurance Premiums Tax applies to premiums collected on insurance risks by every insurance company transacting business in New Jersey. The tax base is gross contract premiums less specified deductions. Annuity considerations and reinsurance premiums are not taxed.

### Rate

With a few exceptions, the tax rate is 2% of the premiums collected on insurance risks in this State. Major exceptions include group accident and health insurance premiums (1%); ocean marine risks (5% of three-year average of underwriting profits); workers' compensation premiums (2.25%). If, for any insurance company, the ratio of New Jersey business to total business is greater than 12.5%, the tax is imposed on only 12.5% of that company's total premiums. Another .05% is imposed on group accident and health premiums and another .1% on all other insurance premiums, the revenues being dedicated to the Department of Insurance.

In 1991 the Life and Health Guaranty Association was formed, supported by assessments of up to 2% each year on defined life insurance, annuity, and health insurance accounts. Each member insurer may offset some portion of its assessment against its insurance premium tax liability.

### Disposition of Revenues

The tax is prepaid based on the previous year's premiums, with payments due March 1 and June 1. Revenues, with the exception of some domestic revenues, are deposited in the State Treasury for general State use.

Municipalities and counties continue to receive payments to replace the revenue from the repealed insurance franchise tax on domestic insurance corporations. The State Treasurer pays an annual amount to each county and municipality in which the principal office of a domestic insurance company is located. The payments are made so long as the principal office of a domestic insurance company remains at the location established on January 1, 1981.

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## Landfill Closure and Contingency Tax

### Description

This tax is levied upon the owner or operator of every sanitary landfill facility located in New Jersey on all solid waste accepted for disposal on or after January 1, 1982. In addition, the owner or operator must make a monthly payment of \$1.00 per ton or \$0.30 per cubic yard for the host community benefit surcharge for all solid waste accepted for disposal.

### Rate

The tax rate is \$0.50 per ton or \$0.15 per cubic yard on all solid waste accepted for disposal. The tax rate for solid waste in liquid form is \$0.002 per gallon.

### Disposition of Revenues

All tax revenues are credited to the Sanitary Landfill Facility Contingency Fund, administered by the New Jersey Department of Environmental Protection, established to insure the proper closure and operation of sanitary landfill facilities in this State.

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## Litter Control Tax

### Description

The Litter Control Tax is imposed on all gross receipts from sales of litter-generating products sold within or into New Jersey by each person engaged in business in the State as a manufacturer, wholesaler, distributor or retailer of such products. Any retailer with less than \$250,000 in annual retail sales of litter-generating products is exempt from this tax.

Litter-generating products include beer, cigarettes, cleaning agents and toiletries, distilled spirits, food, glass containers, metal containers, groceries, tires, newsprint and magazine paper stock, nondrug drugstore sundry products, paper products, plastic and fiber containers, soft drinks, and wine. The tax expires December 31, 2000.

### Rate

Manufacturers, wholesalers and distributors of litter-generating products pay a tax of  $\frac{3}{100}$  of 1% (.03%) on all gross receipts from wholesale sales of such products in New Jersey. Retailers are taxed at the rate of  $\frac{2.25}{100}$  of 1% (.0225%) on all gross receipts from retail sales of litter-generating products.

## Disposition of Revenues

Revenues are deposited in the Clean Communities Account Fund.

# Local Property Tax

## Description

*An ad valorem tax*—The local property tax is measured by property values and is apportioned among taxpayers according to the assessed value of taxable property owned by each taxpayer. The tax applies to real estate and tangible personal property of telephone, telegraph and messenger systems companies.

*A local tax*—The property tax is a local tax assessed and collected by municipalities for the support of municipal and county governments and local school districts. No part of it is used for support of State government.

*Amount of tax (a residual tax)*—The amount of local property tax is determined each year, in each municipality, to supply whatever revenue is required to meet budgeted expenditures not covered by monies available from all other sources. School districts and counties notify municipalities of their property tax requirements. Municipalities add their own requirements and levy taxes to raise the entire amount. As a residual local tax, the total property tax is determined by local budgets and not by property valuations or tax rates.

*Property assessment (the tax base)*—All taxable property is assessed (valued for taxation) by local assessors in each municipality. Assessments are expressed in terms of “taxable value,” except for qualified farm land, which is specially valued.

## Rate

The local property tax rate is determined each year in each municipality by relating the total amount of tax levy to the total of all assessed valuations taxable. Expressed in \$1 per \$100 of taxable assessed value, the tax rate is a multiplier for use in determining the amount of tax levied upon each property. See Appendix A for the 1998 general and effective property tax rates in each municipality.

## Disposition of Revenues

This tax is assessed and collected locally by the taxing districts for support of county and municipal governments and local school district purposes.

## History

It may be said that the property tax originated in 1670 with a levy of one half penny per acre of land to support the central government. Through the middle of the 19th century property taxes were levied upon real estate and upon certain personal property at arbitrary rates within certain limits called “certainties.” In 1851 the concepts of a general property tax and uniform assessments according to actual value were developed (Public Laws 1851, p. 273).

For almost a century following the 1851 legislation, a continuing effort was made to accomplish uniform taxation under a general property tax. In 1875 a constitutional amendment provided that “property shall be assessed for taxes under general laws and by uniform rules according to its value” (Article IV, Section VII, Paragraph 12). Courts held that the 1875 amendment permitted classification of property for tax purposes and also exemption of certain classes from taxation, or the substitution of other kinds of tax “in lieu.” Thus began a long period of erosion of the “general property tax” concept. In 1884 a State Board of Assessors was created and given responsibility for assessment of railroad and canal property, thus setting the pattern for State assessment of certain classes of property.

Intangible personal property was eliminated from the “general property tax base” in 1945 (replaced with a corporation net worth tax). Such elimination shifted the emphasis for tax reform to tangible personal property.

The New Jersey State Constitution adopted in 1947 provided that “property shall be assessed for taxation under general law and by uniform rules. All real property assessed and taxed locally or by the State for allotment and payment to taxing districts shall be assessed according to the same standard of value, except as otherwise permitted herein, and such property shall be taxed at the general tax rate of the taxing district in which the property is situated, for the use of such taxing district” (Article VIII, Section I).

This Article was interpreted to preclude any classification of real estate but to leave the door open for classified taxes upon personal property. In 1963 the Constitution was amended to permit assessment of farm property according to its value for agricultural use only. Chapter 51, Laws of 1960 (effective for tax year 1965) provided for such classification and also provided other significant modifications.

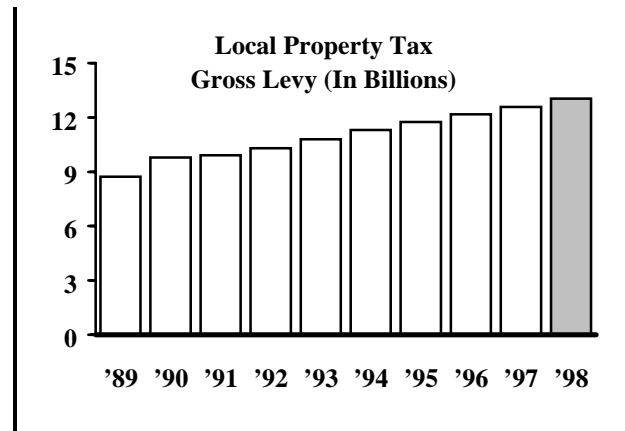
Personal property provisions of Chapter 51, Laws of 1960 were replaced by Chapter 136, Laws of 1966. For taxes payable in 1968 and until 1993, personal property used in business (other than the businesses of local exchange telephone, telegraph and messenger system companies and

other public utilities) was subject to the Business Personal Property Tax instead of the local tax. Personal property is no longer subject to any property tax and inventories of all businesses are excluded from property taxation.

The 1966 law also provided for replacement of local personal property tax revenues from four tax sources: (1) Retail Gross Receipts Tax, (2) Corporation Business (Net Income) Tax, (3) Business Personal Property Tax and (4) Unincorporated Business Tax. This revenue replacement program was terminated (C. 3, P.L. 1977). Legislation was passed providing for an annual appropriation of not less than \$158.7 million.

The decision in *Switz v. Middletown Township, et al.*, 23 N.J. 580 (1957) required that all taxable property be assessed at "true value" (100% assessment). This was the beginning of a series of New Jersey court decisions which have been a major factor in development of uniform real estate tax assessment.

A long period of legislative history has developed numerous exemptions and various special property tax treatments. These are found principally in R.S. 54:4-3.3 and in R.S. 54:4-3.6. Generally exempt are government-owned property, and property of religious, educational, charitable and various types of non-profit organizations. In addition, qualified veterans and senior citizens are permitted tax deductions of \$50 and \$250, respectively.



Fiscal Year	Gross Tax Levy
1989	\$ 8,726,832,862
1990	9,782,223,329
1991	9,921,553,312
1992	10,324,378,978
1993	10,757,596,440
1994	11,286,354,001
1995	11,746,914,124
1996	12,177,920,307
1997	12,579,899,717
<b>1998</b>	<b>13,040,191,871</b>

## Motor Fuels Tax

### Description

A tax on motor fuels is applied to sales of gasoline, diesel fuel or liquefied petroleum gas and compressed natural gas used in motor vehicles on public highways.

### Rate

The general motor fuels tax rate is \$0.105 per gallon of gasoline. A tax of \$0.0525 per gallon is imposed on petroleum gas and liquefied or compressed natural gas sold or used to propel motor vehicles on public highways.

The diesel fuels tax rate is \$0.135 per gallon, of which \$0.03 per gallon is refundable for fuel used in passenger automobiles and motor vehicles of less than 5,000 pounds gross weight (C. 73, P.L. 1984, effective September 1, 1985).

No tax is due from motor fuel sales to the United States or New Jersey governments; between licensed distributors; between licensed gasoline jobbers; and for export.

### Disposition of Revenues

Revenues are deposited in the State Treasury. An appropriate amount pursuant to C. 460, P.L. 1988 and C. 73,

P.L. 1984 is annually apportioned to the Transportation Trust Fund for maintenance of the State's transportation system.

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## NJ SAVER Rebate Program

Chapter 63, P.L. 1999, approved on April 15, 1999 and known as the New Jersey School Assessment Valuation Exemption Relief and Homestead Property Tax Rebate Act (NJ SAVER and Homestead Rebate Act), created the NJ SAVER rebate program. New Jersey residents, regardless of age or income, who own, occupy and pay property taxes on a home in New Jersey that was their principal residence on October 1 of any year are eligible to receive a rebate for that year.

The State calculates the rebate on each applicant's home by multiplying the equalized value of a home by the effective school tax rate for the municipality in which the home is located. The equalized value for the calculation cannot exceed \$45,000. Since school tax rates vary among municipalities, NJ SAVER rebate amounts will vary. The program will be phased in over a five-year period beginning in 1999. The first rebate checks mailed in 1999 represented 20% of the maximum NJ SAVER rebate. Homeowners will receive 40% of the maximum rebate in 2000; 60% of the maximum rebate in 2001; 80% of the maximum rebate in 2002; and 100% of the maximum rebate in 2003.

The NJ SAVER rebate program and the homestead rebate program are two separate programs. Eligible applicants are entitled to either a homestead rebate or a NJ SAVER rebate, and will receive whichever provides the higher benefit in their individual case.

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## Petroleum Products Gross Receipts Tax

### Description

The Petroleum Products Gross Receipts Tax is imposed on all companies engaged in refining and/or distributing petroleum products for distribution in this State. It applies to the first sale, not for export, of petroleum products within New Jersey.

Home heating oil (including #2, #4 and #6 heating oils), and propane gas and kerosene used for residential heating are exempt from tax. Also exempt from tax are receipts from sales of petroleum products used by marine vessels

engaged in interstate or foreign commerce; receipts from sales of aviation fuels used by airplanes in interstate or foreign commerce other than burnout portion; receipts from sales of asphalt and polymer grade propylene used in the manufacture of polypropylene; receipts from sales to nonprofit entities qualifying for exemption under the Sales and Use Tax Act; and receipts from sales to the United States or the State of New Jersey.

### Rate

The petroleum products tax is imposed at the rate of 2¾% on gross receipts from the first sale of petroleum products in New Jersey. This rate is converted by a formula to a cents-per-gallon basis and adjusted semi-annually to be at or above \$0.04/gallon. The current rate through December 31, 1999 is \$0.04 per gallon.

### Disposition of Revenues

Revenues are deposited in the State Treasury for general State use.

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## Property Tax Reimbursement Program

Chapter 348, P.L. 1997, approved January 14, 1998, created the Property Tax Reimbursement Program which effectively freezes property taxes for eligible New Jersey senior citizens and disabled persons by reimbursing them for property tax increases. The first year a resident satisfies all the eligibility requirements becomes their base year. Residents who remain eligible in succeeding years will be reimbursed for any increase in the amount of property taxes paid over the base year amount.

Residents are eligible if they (1) are age 65 or older or receiving Federal Social Security disability benefits; (2) owned and lived in a homestead (or mobile home which is on a leased site in a mobile home park) for the last three years; (3) lived in New Jersey and paid property taxes either directly or through rent for at least ten consecutive years; (4) paid the full amount of property taxes (or site fees if a mobile home owner) due on the home for both their base year and the year for which they are claiming the reimbursement; and (5) meet certain income eligibility limits for both the base year and the year for which they are claiming a reimbursement.

The income requirement will increase in subsequent years by the amount of the maximum Social Security benefit cost of living increase for that year. Applicants must meet all requirements for both their base year and the year for

which they are claiming a reimbursement. Once a homeowner's base year is established, it remains the same as long as they remain eligible in succeeding years. If a homeowner does not satisfy the requirements in one year, then their base year will become the next year that they satisfy all the requirements.

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## Public Community Water System Tax

### Description

The Public Community Water System Tax is levied upon the owner or operator of every public community water system in New Jersey based upon water delivered to consumers, not including water purchased for resale, on or after April 1, 1984.

### Rate

The tax rate is \$0.01 per 1,000 gallons of water delivered to a consumer.

### Disposition of Revenues

Revenues are deposited in the Safe Drinking Water Fund administered by the New Jersey Department of Environmental Protection and used to ensure clean drinking water in New Jersey.

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## Public Utility Franchise Tax

### Description

Public Utility Franchise Tax applies to all identified utility entities having lines or mains located in, on, or over any public thoroughfare. Utilities subject to taxation include water and sewerage companies.

The rate is either 2% or 5% of a proportion of the gross receipts of the taxpayer for the preceding calendar year. The proportion of gross receipts subject to tax is the ratio of the taxpayer's total length of lines or mains which are located in, on or over any street, highway or other public place to the whole length of lines or mains. Measurements of lengths of lines or mains exclude service connections.

### Administration

Franchise tax is collected by the State for distribution to municipalities together with the gross receipts tax distribution. The tax levied against water and sewer companies is payable to the State in three installments.

### Rate

The rate is 2% for gross receipts of \$50,000 or less and 5% for gross receipts exceeding \$50,000.

### Disposition of Revenues

Revenues are for local use. The tax is distributed to the municipalities under the Energy Tax Receipts Property Tax Relief Fund in accordance with P.L. 1997, C. 167.

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## Public Utility Gross Receipts Tax

### Description

Public Utility Gross Receipts Tax is in addition to the Franchise Tax and is in lieu of the local taxation of certain properties of sewerage and water corporations in New Jersey.

### Administration

Public Utility Gross Receipts Tax is collected by the State for distribution to municipalities together with the Franchise Tax distribution. The tax is payable by the State to the tax collectors in three installments: July 5, September 1, and December 1 of the tax year.

### Rate

7.5% applied to taxable gross receipts for the preceding calendar year.

### Disposition of Revenues

Revenues are for local use. The tax is distributed to the municipalities under the Energy Tax Receipts Property Tax Relief Fund in accordance with P.L. 1997, C. 167.

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## Public Utility Excise Tax

### Description

Public Utility Excise Tax is an additional tax on sewerage and water public utilities.

### Rate (Calendar Year Basis)

- 0.625% —upon gross receipts subject to the franchise tax (0.25% for taxpayers with gross receipts not in excess of \$50,000 annually);
- 0.9375% —upon gross receipts of all utilities except telephone and telegraph (0.5% for telephone and telegraph).

## Disposition of Revenues

Revenues are for local use. The tax is distributed to the municipalities under the Energy Tax Receipts Property Tax Relief Fund in accordance with P.L. 1997, C. 167.

## Railroad Franchise Tax

### Description

The Railroad Franchise Tax is levied upon railroads (or systems of railroads) operating within New Jersey. The tax base is that portion of the road's (or system's) net railway operating income of the preceding year allocated to New Jersey. The allocating factor is the ratio of the number of miles of all track in this State to the total number of miles of all track over which the railroad or system operates.

### Rate

Railroad Franchise Tax is assessed at the rate of 10% upon the net railway operating income of the preceding year allocated to New Jersey. The minimum is \$100 for taxpayers having total railway operating revenues in the preceding year of less than \$1 million and \$4,000 for taxpayers with operating revenues in excess of \$1 million in the preceding year.

### Disposition of Revenues

Revenues are deposited in the State Treasury for general State use.

## Railroad Property Tax

### Description

Railroad Tax Law of 1948 as amended distinguishes three classes of property:

Class I: "Main stem" roadbed—that not exceeding 100 feet in width.

Class II: All other real estate *used for railroad purposes* including roadbed other than "main stem" (Class I), tracks, buildings, water tanks, riparian rights, docks, wharves, piers. Excluded is "tangible personal property": rolling stock, cars, locomotives, ferryboats, all machinery, tools. Facilities used in passenger service are also excluded, being defined as Class III property.

Class III: Facilities used in passenger service: land, stations, terminals, roadbeds, tracks, appurtenances, ballast and all structures used in connection with rendering pas-

senger service, including signal systems, power systems, equipment storage, repair and service facilities (N.J.S.A. 54:20A-2).

The Railroad Property Tax is a State tax on Class II property.

### Exemptions

Main stem (Class I), tangible personal property and facilities used in passenger service (Class III) are exempt from tax.

### Rate

\$4.75 for each \$100 of true value of Class II railroad property.

### Disposition of Revenues

Revenues are deposited in the State Treasury for general State use. However, under legislation adopted in 1966, the municipalities where railroad property is located are guaranteed the return of certain replacement revenues. No State aid has been paid since calendar year 1982, except for 1984–1994 payments to those municipalities in which Class II railroad property owned by New Jersey Transit Corporation is located (P.L. 1984, C. 58).

## Realty Transfer Fee

### Description

The realty transfer fee is imposed upon the recording of deeds evidencing transfers of title to real property in the State of New Jersey. The realty transfer fee is calculated based on the amount of consideration paid.

The realty transfer fee does not apply to the following transfers: consideration of less than \$100; by or to any government; made solely to provide or release debt security; which confirm or correct a deed previously recorded; on a sale for delinquent taxes; on partition; by a receiver, trustee in bankruptcy or liquidation, or assignee for the benefit of creditors; eligible to be recorded as "ancient deeds"; acknowledged or proved on or before July 3, 1968; between husband and wife or parent and child; conveying a cemetery plot; in specific performance of a final judgment; releasing a right of reversion; transfers on which tax was previously paid; to effect distribution of an estate; or as a result of a divorce decree.

Two types of transfers of real property are exempt from the State portion of the realty transfer fee (\$1.25 of the \$1.75 for each \$500 of consideration):

- (1) The sale of one or two-family residential premises which are owned and occupied by a senior citizen (62 years of age or older), blind person, or disabled person who is the seller in such transaction shall be exempt from payment of \$1.25 for each \$500 of consideration of the fee imposed.
- (2) The sale of low and moderate income housing as defined by Chapter 225, P.L. 1985 shall be exempt from payment of \$1.25 for each \$500 of consideration of the fee imposed.

Transfers of title to real property upon which there is new construction are exempt from payment of \$1 for each \$500 not in excess of \$150,000. "New Construction" means any conveyance or transfer of property upon which there is an entirely new improvement not previously occupied or used for any purpose.

### **Rate**

The realty transfer fee is imposed upon the seller at the rate of \$1.75 for each \$500 of consideration; an additional fee of \$0.75 is imposed for each \$500 of consideration in excess of \$150,000.

### **Disposition of Revenues**

The proceeds of the realty transfer fees collected by the county recording officer shall be accounted for and remitted to the county treasurer. An amount equal to 28.6% of the proceeds from the first \$1.75 for each \$500 of consideration recited in the deed shall be retained by the county treasurer for use of the county and the balance shall be paid to the State Treasurer. The amount retained by the county treasurer for the use of the county equals \$0.50 for each \$500 of consideration. The rest of the tax revenues, \$1.25 for each \$500 of consideration, are paid to the State Treasurer for the use of the State.

The first \$25 million of the State share of the realty transfer fee is dedicated to shore protection projects, the revenue to be deposited in the Nonlapsing Shore Protection Fund.

All amounts paid to the State Treasurer in payment of the additional fee of \$0.75 for each \$500 of consideration recited in the deed in excess of \$150,000 shall be credited to the Neighborhood Preservation Nonlapsing Revolving Fund. In fiscal year 1999, \$33,520,968 was paid to the State Treasurer and credited to the Neighborhood Preservation Nonlapsing Revolving Fund.

## **Resource Recovery Investment Tax**

### **Description**

The Resource Recovery Investment Tax is levied upon the owners and operators of every sanitary landfill facility located in New Jersey on all solid waste accepted for disposal on or after May 1, 1985. The tax expired on December 31, 1995.

## **Sales and Use Tax**

### **Description**

Sales and Use Tax applies to receipts from retail sale, rental or use of tangible personal property, retail sale of producing, fabricating, processing, installing, maintaining, repairing, storing and servicing tangible personal property, maintaining, servicing or repairing real property, certain direct mail services, sales of restaurant meals, rental of hotel and motel rooms, certain admission charges and telecommunications services.

A compensating use tax is also imposed on retail purchases of tangible personal property or services made outside the State for use in New Jersey on which a sales tax would be due but has not been paid.

All persons required to collect the tax must file an Application for Registration. Each registrant's authority to collect the sales tax is certified by a Certificate of Authority, issued by the Division, which must be prominently displayed at each place of business to which it applies.

Major exemptions include: sales of newspapers and magazines; casual sales except motor vehicles and registered boats; clothing, except furs; farm supplies and equipment; flags of New Jersey and the United States; unprepared food for off-premises consumption; food sold in school cafeterias; prescription and nonprescription drugs and other medical aids; motor fuels; periodicals and textbooks; professional and personal services; real estate sales; tangible personal property used in research and development; transportation of persons or property; production machinery and equipment.

### **Rate**

The rate of tax is 6% on taxable sales.

### **Disposition of Revenues**

Revenues are deposited in the State Treasury for general State use.



## History

New Jersey's first sales tax became effective on July 1, 1935. The tax rate was set at 2%. Chapter 268, P.L. 1935 provided that sales taxation would cease as of June 13, 1938.

Sales and Use Tax next became effective July 1, 1966. Rate of tax was set at 3% (C. 30, P.L. 1966).

Additional exemptions from the tax were provided by C. 25, P.L. 1967. Chapter 7, P.L. 1970 increased the tax rate to 5%, effective March 1, 1970. This Act and C. 25, P.L. 1970 contained certain transitional provisions relating to this increased rate.

Effective July 1, 1972, sales of alcoholic beverages, except draught beer sold by the barrel, to any retail licensee were made subject to Sales and Use Tax (C. 27, P.L. 1972). The 1972 amendment repealed taxation of sales of packaged liquor by retailer to consumer. The tax applied at the wholesale-retail level. Its base was the minimum consumer retail price as filed with the Board of Alcoholic Beverage Control.

A new tax imposed on wholesale receipts of alcoholic beverage licensees at 6.5% of the wholesale price superseded the prior tax imposed under the sales tax law at 5% of the minimum consumer resale price (C. 62, P.L. 1980).

Production machinery and equipment became exempt from sales tax effective January 1, 1978.

Sale, rental or lease of commercial motor vehicles weighing more than 18,000 pounds became exempt from sales tax effective January 1, 1978 (C. 217, P.L. 1977).

The Division took over administration of the Atlantic City Luxury Sales Tax (C. 60, P.L. 1980).

Recycling equipment was exempted from sales tax effective January 12, 1982 (C. 546, P.L. 1981).

The sales and use tax rate increased to 6%, effective January 3, 1983 (C. 227, P.L. 1982).

Non-prescription drugs, household paper products and soaps and detergents were exempted from sales tax, effective July 1, 1983.

The sales and use tax rate increased to 7%, effective July 1, 1990. Several major exempt items and services became taxable July 1, 1990, e.g., cigarettes, alcoholic beverages, household soap and paper products, janitorial services, telecommunications services, and sales, rentals, leasing, parts and services for certain commercial motor vehicles (C. 40, P.L. 1990).

Household paper products became exempt again September 1, 1991 (C. 209, P.L. 1991).

Chapter 115, P.L. 1990, approved November 19, 1990, reinstated, with modifications, the exemption for certain sales, rentals, leases, and repair and replacement parts for commercial motor vehicles, retroactive to July 1, 1990.

The sales and use tax rate decreased to 6%, effective July 1, 1992 (C. 11, P.L. 1992).

Local public pay phone calls were exempted from the tax under a law passed January 15, 1993, and retroactive to July 1, 1990 (C. 10, P.L. 1993).

Effective July 1, 1994, retail sales of certain tangible personal property in Salem County were taxed at 3% (C. 373, P.L. 1993).

Certain radio and television broadcast production equipment was exempted from sales and use tax effective April 1, 1996 (C. 317, P.L. 1995).

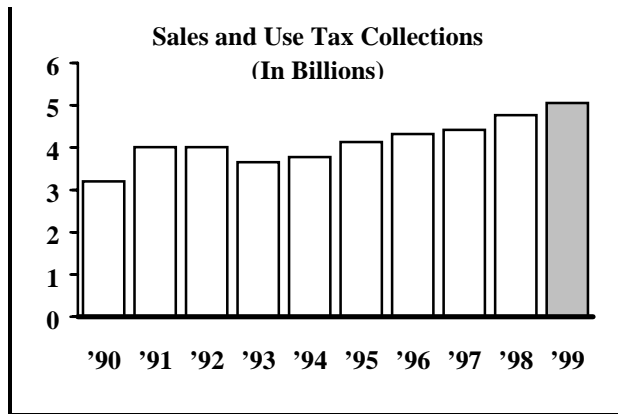
Sales and use tax was repealed on advertising space in a telecommunications user or provider directory or index distributed in New Jersey, effective April 1, 1996 (C. 184, P.L. 1995).

Sales and use tax was imposed on sales of energy (C. 162, P.L. 1997).

Sales and use tax was repealed on sales of advertising services, other than direct mail services performed in New Jersey, on and after November 1, 1998 (C. 99, P.L. 1998).

Effective January 8, 1998, the farm use exemption was amended to apply to tangible personal property (except automobiles, and except property incorporated into a building or structure) used "directly and primarily" in the production for sale of tangible personal property for sale on farms, ranches, nurseries, greenhouses and orchards (C. 293, P.L. 1997).

Imprinting services performed on manufacturing equipment that is exempt under N.J.S.A. 54:32B-8.13 were exempted from sales and use tax effective March 1, 1998 (C. 333, P.L. 1997).



Fiscal Year	Collections
1990	\$3,202,569,956
1991	4,013,147,198 <sup>1</sup>
1992	4,009,960,467
1993	3,651,122,672 <sup>2</sup>
1994	3,778,506,912
1995	4,133,278,016
1996	4,318,372,824
1997	4,415,427,600
1998	4,766,194,660
<b>1999</b>	<b>5,054,437,769</b>

<sup>1</sup> Rate increased to 7% on July 1, 1990.

<sup>2</sup> Rate decreased to 6% on July 1, 1992.

## Urban Enterprise Zones

The New Jersey Urban Enterprise Zones Act (C. 303, P.L. 1983), approved August 15, 1983, provides tax advantages and other business tools to enhance development efforts in the State's economically distressed urban centers. Under the program qualified municipalities apply to the Urban Enterprise Zone Authority to have a portion of the municipality designated as an Urban Enterprise Zone. Businesses must apply to the local municipal zone coordinator to be certified as a "qualified business" before they can take advantage of these benefits.

Initially ten zones (the maximum number provided under the statute) were established in: Bridgeton, Camden, Elizabeth, Jersey City, Kearny, Millville/Vineland, Newark, Orange, Plainfield and Trenton. Chapter 367, P.L. 1993, approved January 5, 1994, allowed for the designation of ten additional enterprise zones. This increased the number of zones from 10 to 20, adding Asbury Park-Long Branch, Carteret, Lakewood, Mount Holly, Passaic, Paterson, Perth Amboy, Phillipsburg, Pleasantville and Union City. Seven new zones were added in 1996: East Orange, Guttenberg, Hillside, Irvington, North Bergen, Pemberton and West New York.

The benefits conferred on qualified businesses that choose to operate within a designated Urban Enterprise Zone include:

- Corporation Business Tax credits for hiring new employees;
- Sales and Use Tax exemption for purchases of building materials, most tangible personal property and most services for business use;
- Unemployment tax rebates;
- Authorization to impose State sales tax at 50% of the regular rate (3%);
- Skills training programs to meet employment demands;
- Priority for funding by Local Development Financing Fund;
- Possible exemptions from certain State and municipal regulations;
- Possible eligibility for reduced utility rates;
- Possible eligibility for energy assistance funds from the Department of Commerce and Economic Development.

## Sales Tax Benefits

A vendor within an Urban Enterprise Zone wishing to collect sales tax at the reduced rate must first be certified as a "qualified business," and then apply to the Division of Taxation for authority to collect tax at the reduced rate. No business may collect sales tax at the reduced rate without the proper certification. The certification is valid for one year. Recertification is automatic unless the business changes or loses its qualified status.

A qualified business may collect sales tax at the reduced rate only on a face-to-face retail sale of tangible property to a buyer who comes to its business location within the Zone and accepts delivery from the location. Thus, telephone, mail order or catalog sales do not qualify for the reduced rate. Sales of certain items are not eligible for the reduced sales tax rate. Tax must be collected at the full regular rate on sales of: restaurant meals and prepared food, cigarettes, alcoholic beverages, energy, and the sale, rental or lease of motor vehicles. The reduced rate does not apply to sales of any services by a qualified business.

A qualified business may purchase items of tangible personal property (office and business equipment, supplies, furnishings, fixtures, etc.) and taxable services (construction work, repair and installation services, etc.) which are for the exclusive use of the business at its location in the Zone without paying sales tax. Building materials used at the Zone location are also exempt from tax, whether purchased by the qualified business or the contractor. The exemption from sales tax does not apply to purchases or repairs of motor vehicles, or purchases of telecommunications services and energy.

## Savings Institution Tax

### Description

The Savings Institution Tax is applicable to every savings institution doing a financial business in New Jersey. The Act defines Savings Institution as any state or Federally chartered building and loan association, savings and loan association or savings bank.

Excluded from tax are:

- (1) 100% of dividends of an owned and qualified subsidiary; and
- (2) 50% of other dividends included in taxable income for Federal tax purposes.

### Rate

The tax rate is 3% of net income. The tax is based upon net income as of the close of the preceding tax year, but is not less than \$50 for savings institutions with assets under \$1 million nor less than \$250 for savings institutions with assets of \$1 million or more.

In addition to the tax due, for accounting periods ending April, 1980 and thereafter, an 80% prepayment of tax for the following year must also be made. Credit against the current year's tax liability for such prepayment is allowed.

### Disposition of Revenues

Revenues are deposited in the State Treasury for general State use.

## Solid Waste Importation Tax

### Description

The Solid Waste Importation Tax is levied upon the owner or operator of every sanitary landfill facility located in New Jersey which accepts solid waste for disposal from outside of the solid waste management district on or after May 1, 1985. The Solid Waste Importation Tax expired December 31, 1995.

## Solid Waste Recycling Tax

### Description

The owner or operator of a solid waste facility in New Jersey must pay the Solid Waste Recycling Tax on all solid waste accepted for disposal or transfer at the facility on or after July 1, 1987. Resource recovery facilities and solid waste transfer station facilities are not subject to the tax. The Solid Waste Recycling Tax terminated on December 31, 1996.

## Solid Waste Services Tax

### Description

The Solid Waste Services Tax is levied upon the owner or operator of every sanitary landfill facility located in New Jersey on all solid waste accepted for disposal on or after May 1, 1985.

### Rate

The tax rate in 1999 is \$1.20 per ton or \$0.36 per cubic yard on all solid waste accepted for disposal. The tax rate for solid waste in liquid form is \$0.002 per gallon. On the first of January annually the tax rate increases on solids by \$0.05 per ton or \$0.015 per cubic yard.

### Disposition of Revenues

The revenue collected from the Solid Waste Services Tax is deposited in the Solid Waste Services Tax Fund administered by the New Jersey Department of Environmental Protection. Monies in the fund are allocated to the counties based on the amount of waste generated and used for implementing county solid waste management plans.

## Spill Compensation and Control Tax

### Description

The Spill Compensation and Control Tax is imposed on owners or operators of one or more major facilities used to refine, store, produce, handle, transfer, process or transport hazardous substances, including petroleum products, to insure compensation for cleanup costs and damages due to discharge of hazardous substances.

The tax is also imposed on owners of a hazardous substance which is transferred to a public storage terminal, and to any transferor of a previously untaxed nonpetroleum hazardous substance from a major facility to one which is a nonmajor facility.

### Rate

1. Nonpetroleum hazardous substances—greater of \$0.015 per barrel or 1% of fair market value plus \$0.0025 per barrel;
2. Petroleum products—\$0.015 per barrel;
3. Precious metals—\$0.015 per barrel; and
4. Elemental phosphorus—\$0.015 per barrel.

The tax rate may be increased in the case of a major discharge or series of discharges of petroleum products to a rate not to exceed \$0.04 per barrel until the revenue pro-

duced by the increased rate equals 150% of the total dollar amount of all pending reasonable claims resulting from the discharge.

The tax for an individual taxpayer who paid the tax in 1986 is capped at a certain percentage of the taxpayer's 1986 liability.

### Disposition of Revenues

The proceeds constitute a fund (New Jersey Spill Compensation Fund) to insure compensation for cleanup costs and damage associated with the discharge of petroleum products and other hazardous substances.

## Tobacco Products Wholesale Sales and Use Tax

### Description

The Tobacco Products Wholesale Sales and Use Tax is imposed on the receipts from every sale of tobacco products, other than cigarettes, by a distributor or a wholesaler to a retail dealer or consumer.

Cigarettes are exempt from this tax.

### Rate

The rate is 48% (effective January 1, 1998) on the receipts from every sale of tobacco products by a distributor or wholesaler.

### Disposition of Revenues

Revenues are deposited in the State Treasury for general State use.

## Transfer Inheritance and Estate Taxes

### Description

The transfer inheritance tax applies to the transfer of all personal property and New Jersey real property having an aggregate value of \$500 or more in estates of resident decedents. In estates of nonresident decedents, the tax applies to real property and tangible personal property located in the State of New Jersey.

The Estate Tax is imposed in addition to the Transfer Inheritance Tax on estates of resident decedents where the State inheritance taxes paid are not sufficient to fully absorb the Federal Estate Tax credit allowable.

### Rate

The Transfer Inheritance Tax rates depend on the amount received and the relationship between the decedent and the beneficiary. No tax is imposed on immediate family (direct ancestors or descendants—Class A) or spouses. Class C beneficiaries (sibling of decedent, spouse or widow/er of a child of decedent) are taxed at 11%–16%, with the first \$25,000 exempt. Class D beneficiaries (all others) are taxed at 15%–16%, with no tax on bequests of less than \$500. Charitable institutions are exempt from tax.

Estate taxes are determined by Federal law, since the tax is designed to absorb the Federal credit available for State taxes paid. During and prior to 1997, there was no tax due on Federal taxable estates of less than \$600,000. However, under provisions of The Taxpayer Relief Bill of 1997 (H.R. 1040), which was passed by Congress on July 31, 1997, the applicable exclusion amount will be \$1,000,000 in 2006 when fully phased in. Prior to being fully phased in, the exclusion will be:

1998	\$625,000
1999	650,000
2000	675,000
2001	675,000
2002	700,000
2003	700,000
2004	850,000
2005	950,000
2006 and thereafter	1,000,000

### Exemptions From Transfer Inheritance Tax

- All transfers having an aggregate value under \$500;
- Life insurance proceeds paid to a named beneficiary;
- Charitable transfers for the use of any educational institution, church, hospital, orphan asylum, public library, etc.;
- Transfers for public purposes made to New Jersey or any political subdivision thereof;
- Federal civil service retirement benefits payable to a beneficiary other than the estate;
- Annuities payable to survivors of military retirees; and
- Qualified employment annuities paid to a surviving spouse.

### Disposition of Revenues

Revenues are deposited in the State Treasury for general State use.

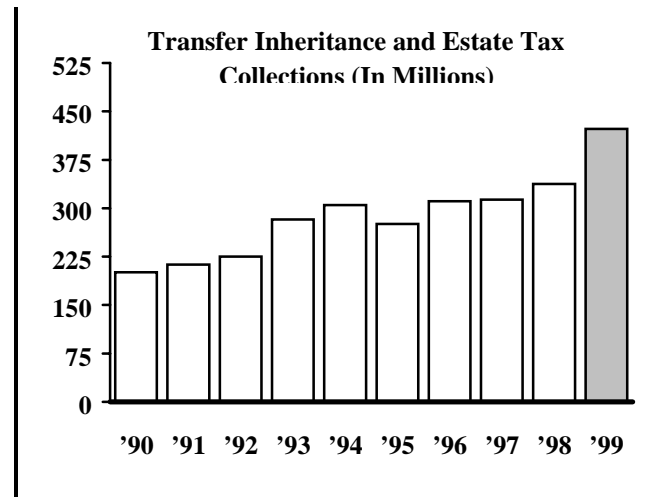
### History

New Jersey first imposed an inheritance tax in 1892 at a rate of 5% on property transferred from a decedent to a beneficiary.

In 1909, legislation was enacted which formed the basis of the present Transfer Inheritance Tax (N.J.S.A. 54:33-1 *et seq.*).

In 1934, legislation was enacted which formed the basis of the Estate Tax (N.J.S.A. 54:38-1 *et seq.*). On June 30, 1992, the filing date for estate taxes for decedents dying after March 1, 1992 was shortened. The due date had been the later of 18 months after the date of death or 60 days after the Federal notification of Federal estate tax due. The new due date is 9 months after date of death (C. 39, P.L. 1992). Estate taxes are paid by the estate to the extent that inheritance taxes are below the Federal credit for State taxes.

On February 27, 1985 an amendment to the Transfer Inheritance Tax Act (C. 57, P.L. 1985) eliminated from taxation transfers from decedents to surviving spouses (retroactive to January 1, 1985) and to other Class A beneficiaries on a phased out basis through July 1, 1988. On July 1, 1988, other Class A beneficiaries became totally exempt from the tax. Class C beneficiaries were granted a \$25,000 exemption effective on July 1, 1988.



Fiscal Year	Collections
1990	\$200,954,216
1991	212,825,520
1992	225,210,867
1993	283,812,642
1994	304,770,334
1995	275,823,814
1996	310,655,978
1997	313,447,496
1998	337,679,941
1999	423,015,329

## Transitional Energy Facility Assessment

### Description

The Transitional Energy Facility Assessment is a substitute for the Public Utility Energy Unit Tax previously assessed against utilities engaged in the production and/or transmission of energy (therms of gas or kilowatt-hours of electricity).

### Administration

The Transitional Energy Facility Assessment is collected by the State for distribution to the municipalities of the State.

### Rate

The rates of taxation for each class and category of gas and electrical energy are established by the Board of Public Utilities by board order.

### **Disposition of Revenues**

Revenue from this assessment is to be deposited in the Energy Tax Receipts Property Tax Relief Fund pursuant to C. 167 of the Laws of 1997.

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## **Uniform Transitional Utility Assessment**

### **Description**

The Uniform Transitional Utility Assessment is assessed against utilities engaged in the production and/or transmission of energy (therms of gas or kilowatt-hours of electricity) which were subject to the Public Utility Energy Unit Tax prior to January 1, 1998 and on telecommunication providers previously subject to the Franchise and Gross Receipts Public Utility Tax assessed under P.L. 1940, C. 4.

### **Administration**

The Uniform Transitional Utility Assessment is collected by the State for the use of the State.

### **Rate**

Payments made under the Uniform Transitional Utility Assessment are based on annual returns from the subject utility entities.

### **Disposition of Revenues**

Revenue from this assessment is deposited in the State Treasury.